

Realty Trust Review

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SPECIAL SITUATION AND SELECTION ISSUE

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INVESTMENT OUTLOOK: NEW RATE FLAREUP MAY OPEN ANOTHER BUYING OPPORTUNITY

The market has finally awakened to the fact that new Federal Reserve Chairman Paul Volcker means business and will, in fact, force interest rates higher. All during August investors accented the positives -- i.e., sounder dollar, slower inflation -- they read into these events.

But the Labor Day weekend, spiced by newspaper articles recalling the advent of the Great Depression 50 years ago this fall, faced investors with the sobering fact that there ain't no free lunch -- that higher interest rates will undoubtedly slow the economy even more than most had expected. The result: Institutions, who increasingly dominate the market, traded 377 blocks over 10,000 sh., well below the record, as the Dow-Jones Industrials plunged 15.02 points on back-to-work Tuesday, Sept. 4.

Essentially the 70-point DJI rally between mid-July and mid-August just ran out of buying power -- all the more surprising since the Fed is about ready to pump more credit into mutual funds by letting investors make margin loans against fund shares. The S.E.C. meanwhile is considering relaxing mutual fund advertising rules, a move that also could attract more money into stocks.

This signals to us Washington's desire to keep a healthy glow on the stock market. And it means that this decline, if it runs a few more days, could turn into a reprise of last October's massacre when a near-panic market slide was arrested by massive Washington intervention to bolster the dollar.

That slide opened what has turned out to be a classic buying opportunity in realty trust stocks. And we think you should be prepared not to panic but to get ready for a repeat opening to buy

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at prices somewhat below today's market.

So it's important to know in detail what's happening and what might happen next.

First, start with the assumption that realty trust stocks (along with the energy issues) are in private bull markets all their own regardless of where the Dow-Jones Industrials go. This will keep you from being spooked by all the black newspaper headlines you can expect in a few more days if the slide continues.

This doesn't mean that realty trust stocks won't decline -- they will, if only because higher interest rates raise a stock broker's cost of carrying inventory and thus brokers will be lightening up on their positions. So expect some price declines.

Second, figure that dividend paying trusts are somewhat more vulnerable to rising rates than the non-dividend payers. That's because the higher interest rates also reduce the present value of dividends and thus put downward pressure on dividend payers.

So far that pattern hasn't shown up in this pullback. Off Tuesday's performance, here's the scorecard for dividend and non-dividend payers among the NYSE and ASE listed issues:

	<u>DOWN</u>	<u>UP</u>	<u>NO CHG.</u>	<u>TOTAL</u>
Div. payers.15	7	9	31	
No. div.....19	3	5	27	
By percentage				
Div. payers.48%	23%	29%	100%	
No div.....70%	11%	19%	100%	

This table shows that non-dividend payers were hit much harder than their income producing brethren -- exactly the opposite of what you might expect. In fact, the 70% of non-dividend decliners was even more than the 66½% of all issues that fell on the NYSE on Tuesday. These recovery and lower-priced stocks are generally held in sophisticated speculative hands seeking longer-term capital gains -- money not likely to sell

quickly in the face of an interest rate flareup. Our best explanation: Selling came from less sophisticated traders who'd followed knowledgeable money without any clear idea of why.

On the other hand, dividend payers had a relatively good day as over half held their ground with either plus signs or no change. We believe this means that income investors generally feel that most of these stalwart trusts can sustain or even increase earnings and dividends in face of higher rates.

And to cap this vote of confidence, three listed dividend payers touched new highs amid the selloff: Sutro Mtg. Inv., GREIT Realty, and Mortgage Growth Inv. Only one non-dividend recovery stock could match that: Fidelco Growth Investors.

Gear your portfolio strategy to hold mainly No. 1 and No. 2 Ranked trusts, as per our Aug. 10 issue. The dividend payers should stand up while the non-dividend trusts have interesting capital gains potential. Keep some funds in cash.

CORRECTION: The price of Florida Gulf was incorrectly listed at \$5.50 in the Aug. 24 statistics. It should be \$15.50.

NEWS NOTES: TEXAS FIRST MORTGAGE ACQUIRES LAND COMPANY AFTER EASTOVER CORP. SETTLES

Texas First Mtg. REIT, fresh from repaying all bank debt in May, has acquired GBN Corp., a real estate development venture owning land near Houston Intercontinental Airport and notes from previous land sales. Texas First paid \$8.6 million including \$2.3 million in a fresh bank loan and the rest in 38-month notes.

Almost simultaneously--but by coincidence, say principals--Eastover Corp. settled long-standing litigation with GBN over land north of Atlanta. Eastover will net about \$2.18/sh. in the deal. Eastover owns 31% of Texas First.

PORTFOLIO: Audit and its employees hold minor positions (generally less than 1,000 sh.) in: Barnes, First Newport, Metroplex Rl. (plus bonds), Midland Mtg., Moraga Corp., PNB Mtg. & Rlty., and United Realty.

SPECIAL SITUATION REVIEW: TURNING DILUTION TO YOUR ADVANTAGE IN TROUBLED TRUSTS

Dilution normally is poison to investors. It means that a share of stock represents a lower percentage of ownership because new shares have been issued, either via debenture conversion, warrant exercise or stock options to management. For that reason investors and management generally seek to avoid or limit dilution.

But the 1974-75 collapse by some mortgage lending realty trusts forced dilution upon the hardest hit trusts. Many have been forced to accept dilution and for some still in bankruptcy, the extent of potential dilution can only be surmised.

Dilution has a good side however in some situations. It can transform a highly leveraged balance sheet into one with little or no debt -- as it is about to do for Metroplex (see p. 7). And it can open entry routes for investors into situations at discounts in ways that didn't exist before.

In deeply distressed situations, dilution essentially capitalizes some or all of debt as equity. Where dilution to previous shareholders is small and the amount of debt remaining relatively large, ongoing difficulties may result (as for Associated Mtg., reviewed this page). But the viability of a debt restructuring via dilution also hinges upon intangibles of management skills and property values. So there's no easy way to analyze the impact of dilution of trusts emerging from bankruptcy courts except on a case-by-case basis. One thing emerges from this look: Pre-bankruptcy shareholders can wind up with anywhere from 10% to 72% of the post-bankruptcy entity. This table tallies ownership patterns emerging from 10 completed or pending bankruptcy workouts:

PERCENTAGE OF POST-BANKRUPTCY SHARES

	<u>Orig.Sh.</u>	<u>Sub.Debt</u>	<u>Banks</u>
Assoc. Mtg....	64%	15%	22%
#Chase Man.M&R.	10(8a)	68(54a)	10(28a)
CMT Invest.Tr.	49	51	--
#Dominion M&R..	20	71	9
Great Amer....	15	35	50
#Guardian MI...	16	42	42
Lifetime Comm.	47	4	47
Metroplex Rl..	10	90	--
Nat. Mtg.....	63	37	--
NJB Prime Inv.	72	28	--

Approval pending. a-Giving effect to exercise of warrants issued to banks.

American Realty Trust (\$3.13--OTC) has a classic case of "shorts"--the real estate term for illiquidity even though asset values are sound. ART first fell into technical default on its 7% convertibles when it couldn't make sinking fund payments. The indenture trustee sued, in turn forcing the trust to default when \$3.5 million of 9½% senior subordinate debentures matured March 15. Indenture trustees for both issues have now won judgments against the trust, as also has Chase Manhattan Bank in a complex litigation over a construction loan. To raise funds, ART has given an option to sell at a sizeable profit a \$6.2 million downtown Atlanta multi-use complex site but sale hasn't closed. ART's other major assets are hotel/motels in the Washington, D.C. area, with the Colonial Williamsburg Inn now showing excellent results. Workout efforts have been slowed by a long SEC effort to unseat present management; meantime Buffalo stockbroker Brent Baird has joined the board and seeks to have Pres. Leland Speed of Eastover Corp. join him (they have joined forces on other trusts). Investors have bid ART's stock price up in expectation that illiquidity will be cured; the shares are Ranked No. 5N as a sophisticated speculation on a 54% discount from \$6.85 adjusted book value including depreciation.

Back in the early 1970's, Associated Mortgage Investors (\$1 bid, OTC) had the dubious distinction of being the first REIT to file for Chapter XI bankruptcy. In September, 1975, the March, 1974 application was confirmed, and AMI began to dispose of its assets in order to pay back its debts. Continuing to reflect the magnitude of the difficulties that made it the first of the REIT's to topple, AMI is still engaged in working out its debts and is not operating as a going concern. At September 1978 AMI had outstanding \$18M in senior debt and \$10M in subordinated debt, neither accruing interest. The trust is delinquent in making scheduled payments on the senior debt which in turn prevents payments on the subordinated debt. While the trust has paid off some 50% of its senior debt, its delinquent payments mean that needed improvements on remaining properties in order to make them salable cannot be made. The trust's investments consist of 87% non-earning assets

of which 54% were foreclosed properties. With dilution (750,000 shares issued to senior and subordinated debt holders), book value totaled 66¢/sh. Intangibles include \$7.83/sh. taxloss carryforwards and \$10.34/sh. loss reserve. We do not include the shares in REALTY TRUST REVIEW because of long delays in trust publication of financial information. Auditors expressed no opinion on the 1977 financial statements and trust officers recently were meeting with banks to resolve delinquencies on payment obligations. For that reason we can only suggest avoiding the shares.

Builders Investment Group (2 5/16 bid, OTC) is an anomaly in a discussion of dilution. Early in 1979, in settlement of litigation, the trust issued 1 million warrants exercisable at \$1.72/sh. or redeemable at \$1.40 each in 1982. Since book value at Dec. 1978 totaled only 68¢/sh., the exercise of the warrants would boost book value, to a pro forma 94¢/share. Tax loss credits per sh. would be cut to \$11.84, from \$15.88; the effect on earnings would be antidilutive so long as the trust continues to show operating deficits.

The big drain on BIG's earnings results from debt amortization payments of \$40M annually required by the trust's 1976 debt restructure. The pace of the trust's asset swap program has slowed greatly in recent months and BIG no longer sees swaps as a solution to amortization problems. BIG sold \$56M in assets in fiscal 1978; the big problem here is that while \$91M in combined debt bears interest at 3%, all asset sales entail contingent interest. The trust's \$14M land portfolio has proved resistant to liquidation efforts. While BIG's operating results are approaching the break-even level, the size of debt amortization payments (\$25M due in the December quarter) limit potential although lessening the negative aspect of dilution. Enhanced book value has little appeal in light of debt problems, made even less attractive by the possibility of having to redeem the warrants for \$1.40 each in 1982. The 4N-ranked shares should be avoided.

Capital Mortgage Investments (1 3/8,

Philadelphia SE) ended its REIT status in 1976; the trust was profitable in 1978 and subsequently for the first time since 1973, largely as a result of tax loss credits and asset swaps, but also because the trust has issued 517,447 convertible preferred shares (24% of total common and preferred) to its banks in exchange for a 1% interest rate on \$28M bank debt. Despite the 1977 debt restructure, however, the trust still has negative book value of 88¢/sh.; no gains were recorded on the restructure and the preferred shares are a wash regarding book value. Earnings dilution is outweighed by the low rate of interest.

Capital's earnings are vulnerable from different aspects. The trust has been accruing, but not paying, interest at 3%, which was to have begun at the beginning of the year, pending a new loan agreement. Waivers of defaults have been requested, but not received, and the default necessitated default on payments on the convertible subordinated debentures. Furthermore, the potential for further asset swaps has greatly diminished as most attractive properties have been sold or swapped. The trust has 50% nonearning assets, including over \$16M in undeveloped land.

Capital ended its merger talks with Columbia Corp., a Md. holding company, in May; the No. 2N-ranked shares remain a speculative purchase on a possible merger; a long workout combined with debt uncertainties otherwise limit appeal.

Chase Manhattan Mtg. & Rlty (\$1.00 bid--OTC) is pushing ahead with plans to seek creditor approval of its amended bankruptcy plan under Ch. XI. Meanwhile an opposing noteholder committee has moved to shift proceedings into Ch. X and that motion will be heard next week. The trust's proposed reorganization plan calls for the trust to keep four assets with about \$46 million asset value, including the giant Palmas del Mar resort project in Puerto Rico, and swap all other assets in full satisfaction of all bank debt. The trust would then issue a new Series A preferred with \$30.75 liquidating value and convertible into 2 1/2 new shares. Bank creditors would get 5.17 million new common shares (10% of the converted amount), plus pre-

ferred convertible into 1.8 million shares, plus having exercise price of 11.8 million warrants reduced to \$1.50/sh. Banks could thus wind up with about 28% of stock on a fully diluted basis. Holders of a defaulted 7-7/8% senior note issue of \$36.7 million would get \$900 cash plus 7 preferred shares convertible into a total 171½ common shares. Finally all subordinated debt holders would get \$220 cash plus 20 preferred convertible into 490 common. The voting lineup that would emerge if this plan is approved is shown on page 3. About 51.7 million shares would be out with 90¢/sh. pro forma book value. We've been ranking shares No. 5N because they appear to be suitable only for sophisticated investors, notwithstanding the fact that the key Palmas resort is turning around slowly.

Citizens Mortgage Investment Trust (3/8 bid--OTC) has been operating under a Ch. X trustee since Oct. 1978. The trust filed Ch. X when several debt restructuring plans could not be completed. Under Ch. X, a court-appointed trustee takes charge and investigates ways to rehabilitate the company. The trust originally was sponsored by Detroit mortgage banker Citizens Mortgage Co., which subsequently was acquired by Manufacturers Hanover Corp., New York City bank holding company. Financial information has not been forthcoming since the filing and CMIT has yet to report for its Dec. 1978 year. Since the bankruptcy filing suspended interest payments on CMIT's \$76 million of debt (\$56 million to banks, and \$20 million of 8½% senior subordinated notes due 1980), it's expected that the trust has been able to begin building cash in the past year, as have other trusts in bankruptcy. Building cash may be difficult however because about 34% of the \$70 million assets are in foreclosed land held for development, usually the slowest to move. Another 18% are in apartments, however. Doubtless banks and noteholders have been meeting to reach some agreement but substance of discussions has been shuttered from investors. We expect some dilution to the common shareholders to emerge from these talks, although its extent can only be guessed. Book value is negative \$17.17. Until something substantial is known, most

investors will be best served by avoiding the No. 5N-Ranked shares or bonds.

Citizens & Southern Rlty. Inv. (2 1/8, NYSE), defaulted on its senior debt in March 1977. The June, 1978, recapitalization plan provided for the exchange of \$4.6M cash and \$7.2M subordinated debentures (effective rate of 3.03%) for \$15.2M in 6 3/4% subordinated debentures; an asset swap program providing for the exchange of trust assets for a minimum of \$70M in cash and cancellation of bank debt; and a new bank agreement extending the maturity of \$80M in bank debt through 1982 at interest from 1% to 5%. The trust exchanged new series B warrants for old Series A warrants. The Series B warrants are exercisable for 50 shares at \$2 through Mar. 1983 and \$100 face value of the new 3-7% debentures. 10,690,350 shares have been reserved. The warrants trade about \$16, and with a \$100 face amount debenture at about \$82, the package essentially trades at parity with the stock. Book value is \$1.59/sh.; the new bank agreement requires maintenance of positive book value. While the trust does not expect operations to become profitable in the near future, with tax loss credits of \$23.75/sh. available and the cap on book value, the No. 3N-ranked shares are a speculation on possible takeover.

CMT Investment Trust (common, 2 3/4 bid; preferred, 2 7/8 bid, OTC) remained a qualified REIT following acceptance of its Chapter XI plan in April, 1978. The plan entailed the payment of \$10.6M in cash and 2,148,960 new preferred shares (\$7.50/sh. liquidation value). The preferred shares function as the common; they have identical voting rights and are convertible share-for-share into common. A combined total of 4,179,316 shares are currently outstanding. Book value on the combined shares amounts to \$2.96/share, while loss reserves and tax loss credits total \$2.86 and \$8.85 respectively.

CMIT's operations are steadily improving, and foreclosed properties have been reduced to 27% of invested assets (15% non-earning) while an additional 22% of assets represent foreclosed properties which have been refinanced. Bank debt, currently \$71M at 8%, has been re-

paid through mid-1980, and must be eliminated by 1983-year-end. Debt covenants prohibit the payment of dividends until indebtedness is no more than 150% of tangible net worth, except for such payments as are mandated to retain REIT status. The No. 2N-Ranked shares can be bought or held for leveraged long-term recovery in real estate values with insulation from interest rate fluctuations.

Continental Mortgage Investors (48¢ bid--OTC) finally has hope of emerging from one of the nation's largest and most hotly contested bankruptcies. It's about time because an enormous gap in court and securities laws left 25,000 shareholders and 1,800 bondholders in the dark for well over two years while banks tried to force a liquidation that would have likely wiped out shareholders. We regard this as one of the most shameful episodes in securities trading, especially since S.E.C. Chrm. Williams refused your editor's written appeal to intervene. Last week lawyers for banks, the publicly owned 6¼% noteholders, and other parties told the Boston bankruptcy court they'd reached agreement to settle the case but full details were again held back by the presiding judge. Senior bank creditors have agreed to take a package of assets (not described) in full settlement of their \$473 million debt and end Ch. X proceedings. CMI will then be transferred back into Ch. XI where remaining creditors will seek to work out a restructuring plan. Key element to be settled then is how much, if any, dilution common shareholders would sustain relative to the \$88.2 million subordinated debt in four different issues. Three of those issues are held by institutions while \$40.4 million 6¼% convertibles of 1990 are held publicly. CMI broke a 3½-year logjam over settlement by accumulating \$118½ million cash, most through sale of a Miami office tower, and could have grown fat simply by reinvesting unless banks gave some ground. Full discharge from court jurisdiction could be a year or more away for CMI but shareholders and bondholders can invest knowing they won't be wiped out. We've ranked the shares No. 3N for moderate speculative appeal, which should become more defined as details are worked out.

Compass Investment Group (1-7/16 bid, OTC) was taken over by two California investors, Joseph Akerman and John Wertin, in March of this year because its 8¼% debentures became convertible at \$1.35/sh. under an adjustable conversion clause. Akerman and Wertin bought nearly \$2 million in bonds and converted into 47% of CIG shares. Now installed in control, they are taking steps to forestall dilution from the \$14.4 million of bonds still outstanding. CIG has thus registered an equal amount of proposed new 12% senior subordinated nonconvertible debentures due 1994 (the 8¼s mature in 1998) and hopes to offer the exchange when the bonds clear the S.E.C. A successful exchange would greatly enhance the value of the remaining shares, which have \$3.92/sh. book value by diminishing dilution potential. While these efforts to revamp the capital structure are underway, assets are essentially in a holding pattern with no major changes made recently. Compass has repaid all bank debt. We continue to rank the shares No. 1N for potential benefits (e.g., favorable merger or acquisition) that may flow from the control change. The 8¼s trade at conversion parity and thus are not a terribly exciting entry route, although they do carry \$148.50 accrued interest.

Dominion Mtg. & Rlty. (\$1.50 bid, OTC), filed for Chapter XI bankruptcy in June, 1977; the plan of arrangement has been approved by the creditors' committee. The plan calls for the holders of the trust's \$11M, 8% subordinated debentures to receive cash payments totaling \$7.5M over a period beginning 18 months after the consummation of the plan and 71% of the trust's shares. Banks will be repaid \$17M in debt and will receive 9% of the shares in lieu of interest, while other creditors will be paid the full amount due them without interest over 42 months, or 75% of the total immediately. An action was filed in September, 1978, for the proceedings to be conducted under Chapter X, which the trust feels it can avoid.

Under the plan, current shareholders will hold 20% of the common (3,196T shs., pro forma). Negative book value will be diluted from \$9.59/sh. to \$1.92/sh., and

tax loss credits from \$16.27/sh. to \$3.25/sh. The trust earned 82¢/sh. in its fiscal year ended May 31, 1979, reflecting non-payment of interest on outstanding debt. While operating results have been improving, after disposing of assets in order to make payments mandated by the proposed plan, there may be very little left, making earnings dilution a minor problem. Both shares and bonds are high-risk speculation on approval of the plan and workout.

Lifetime Communities, Inc. (1¼ bid, OTC), is the successor to Fidelity Mortgage Investors, which operated as a REIT. Fidelity filed for Chapter XI bankruptcy in Jan. 1975, but approval for its reorganization plan did not come until Jan. 1978. The trust issued 3.4 million shs. to its debtors for a total of 6.6 million shares; banks currently hold 47% of the outstanding shares. In Feb. 1978, Fidelity merged with its Lifetime Communities subsidiary, which operates as a corporation.

Restructuring of bank debt resulted in a non-recurring gain of \$11.26/share in 1978. Some \$66.5M in bank debt must be paid off without interest by 1984, necessitating the sale of the bulk of Lifetime's assets. Currently, 74% of Lifetime's invested assets are low- and non-earning; 59% are foreclosed properties. The company has available \$60 million (\$10.43/share) in tax loss carryforward credits, but will not be able to generate taxable income to utilize more than a small portion, and mergers or acquisitions are restricted unless Lifetime is the surviving entity. Dilution is a moot point; continuation of the company as a going concern is the issue. The No. 5N-Ranked shares are high risk and should be avoided despite the presence of interest-free debt.

First Mortgage Investors (\$1.75 bid, OTC), concluded a new credit agreement with 13 banks in Apr. 1979, in regard to \$198 million debt. Before the exercise of related warrants, book value will be enhanced as gains on interest forgiveness and asset sales outweigh dilution, as follows:

	Th. \$	Th. Sh.
Banks	\$2,800	402
"	13,998	1,933
	15,798	2,335
Present holders	-49,187	8,495
	-33,389	10,830

Interest forgiveness 48,000
 Sale gains 10,000
 Book value +24,611 = \$2.27/share
 Dollar amounts are equity represented by given number of shares; in comparison, current negative book value (after \$45 million Series B preferred evaluated at par) for the common holders totals \$5.71/share. Banks will receive warrants to purchase an additional 2,335,000 shares, and the Series B preferred shares are convertible into 4,500,000 shares, for total diluted book value of \$4.07/sh. Thus far, sale efforts have been successful; the trust should be left with apartment and motel holdings, which have had improving results in recent periods. The shares are an attractive purchase for the trust's leveraged buyout situation enhanced by potential gains in book value.

Metroplex Realty (5/8 bid, 7/8 asked-OTC) is the cheapest and least exploited of the situations reviewed. We boosted it to No. 3N in the Aug. 10 RTR because its bankruptcy reorganization plan has been confirmed by a Dallas court effectively converting all \$9.6 million of 7-3/4% debentures due 1979 into equity. Other elements of the plan include management's undertaking to convert to a corporation and complete a 1-for-5 reverse split. But effectuation of the plan has been held up while bondholders, now in control of the board, negotiate possible mergers and/or acquisitions. Thus trading information is difficult to obtain or interpret. Here's our reading:

The old 7-3/4 bonds trade about 72-80 under the old name, Justice Mortgage. They carry no interest and thus have no yield, despite our mis-statement of that fact in the Aug. 24 RTR. When the bankruptcy plan is executed (probably no later than Nov. 30), they will automatically be converted into 1,112.9 common shares per \$1,000 bond of the new Metroplex, under whatever name. At today's prices, the bonds essentially equate to shares at about 70¢ each. They are bonds only during this brief negotiating period.

The common shares trade in the OTC market under the Metroplex name but do not reflect the pending reverse split. Right now 1,184,000 sh. are out but bonds would convert into 10,656,000 sh. for a total 11,840,000 shs. After the reverse split, 2,368,000 sh. would be out.

When the bankruptcy plan is effectuated, Metroplex will essentially have about \$11½ million net book value subject only to a \$1.3 million purchase money mortgage on one tract of land. That works out to about 95¢/sh. now (\$4.75/sh. after the reverse split). New trustees have asked management to appraise property to prepare for any business combination and early indications are that they may add another 10-15¢/sh. to value. The taxloss carry-forward is worth about 10% to 25% of the \$2.25/sh. face amount, or about 22½¢ to 55¢/sh. Thus the asking price for the package is about \$1.30-\$1.60/sh. before the reverse split.

Will Metroplex find a buyer at that price? So far nobody has stepped up, but the numbers are intriguing enough that we boosted the ranking and subsequently added small amounts of the shares and bonds in the speculative portion of our portfolio.

Tri-South Mortgage Investors (3½-NYSE) agreed to accept overhanging dilution by swapping old bonds for a new 10% senior convertible during 1978. Unlike Compass however, management welcomes the overhanging dilution and essentially considers the \$10.8 million face amount of the 10s as capital. But because the trust exchanged the bonds at 60% of principal for the old bonds, the 10s also carry a \$6.5 million premium, so that fully conversion would effectively transfer \$17.3 million from debt into equity.

Tri-South earned \$1.90/sh. in the June qtr. including \$1.66/sh. in taxloss benefits and interest forgiveness for meeting bank loan repayments. This boosted book value to \$5.62/sh. on the 2.6 million sh. out at June 30. Full conversion of the 10s would add 4.3 million sh. and cut fully diluted book value to \$4.62/sh. on 6.9 million potential sh.

Some conversion is starting to occur and \$803,000 face amount of the 10s was converted into stock in the June qtr., virtually all after the June 15 interest

payment on the bonds. A similar pattern is expected in Dec., with bondholders picking up the interest and then converting. Mean-time bond traders are arbitraging the 10s, which trade at 140 essentially on conversion parity (i.e., each ¼-point on the stock equals 10 points on the bonds).. If stock prices move up toward 4, as they did last week, traders short against the conversion and nail down profits; if the stock sinks to around 3, traders buy bonds. This pattern may persist for awhile, opening an opportunity to accumulate positions at the bottom of the range.

Tri-South still faces liquidity pressures: it must repay \$4.5 million bank debt by Dec. 31 and then deal with \$11.4 million of 7-3/4% debentures due Feb. 15, 1980. We believe TSI's assets are good enough to meet these deadlines but we stress that this is our judgment. If TSI can pay these near-term debts, the No. 1N-Ranked shares should break out of the narrow trading range.

Great American Mgt. & Inv. (\$3.50 bid, OTC), closed its Chapter XI plan in April, 1979, and effected a quasi-reorganization while changing to a corporate form. The plan provides for the payment of \$138M of \$171M senior debt at a 3% average rate over nine years, the conversion of \$57.8M in subordinated debentures into new 3% and 1.1% debentures and their retirement with the proceeds from property sales, and the issuance of 6,258,000 new common shares (after a 1-for-4 reverse split) to senior and subordinated debt holders. After a \$7.45/sh. debt discount, tangible book value is negative 94¢. In future periods the trust will be amortizing this debt discount against earnings, which should be enhanced by repurchases of debentures at less than face value.

GAMI intends to retain some 40% of its properties; although currently running a deficit, partially because of high debt amortization charges, the company has positive net cash flow from operations. Sumbelt locations should continue to enhance results. The No. 1N-ranked shares are a buy for high-leverage Sumbelt realty and 46% discount from book value including the intangible debt discount. What you see is what you get; the quasi-reorganization reassessed property carrying values to current market values.